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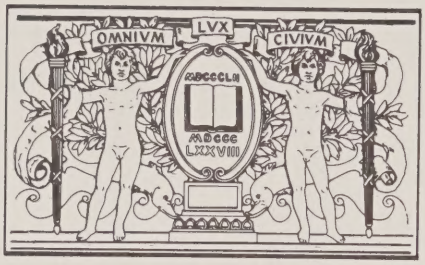

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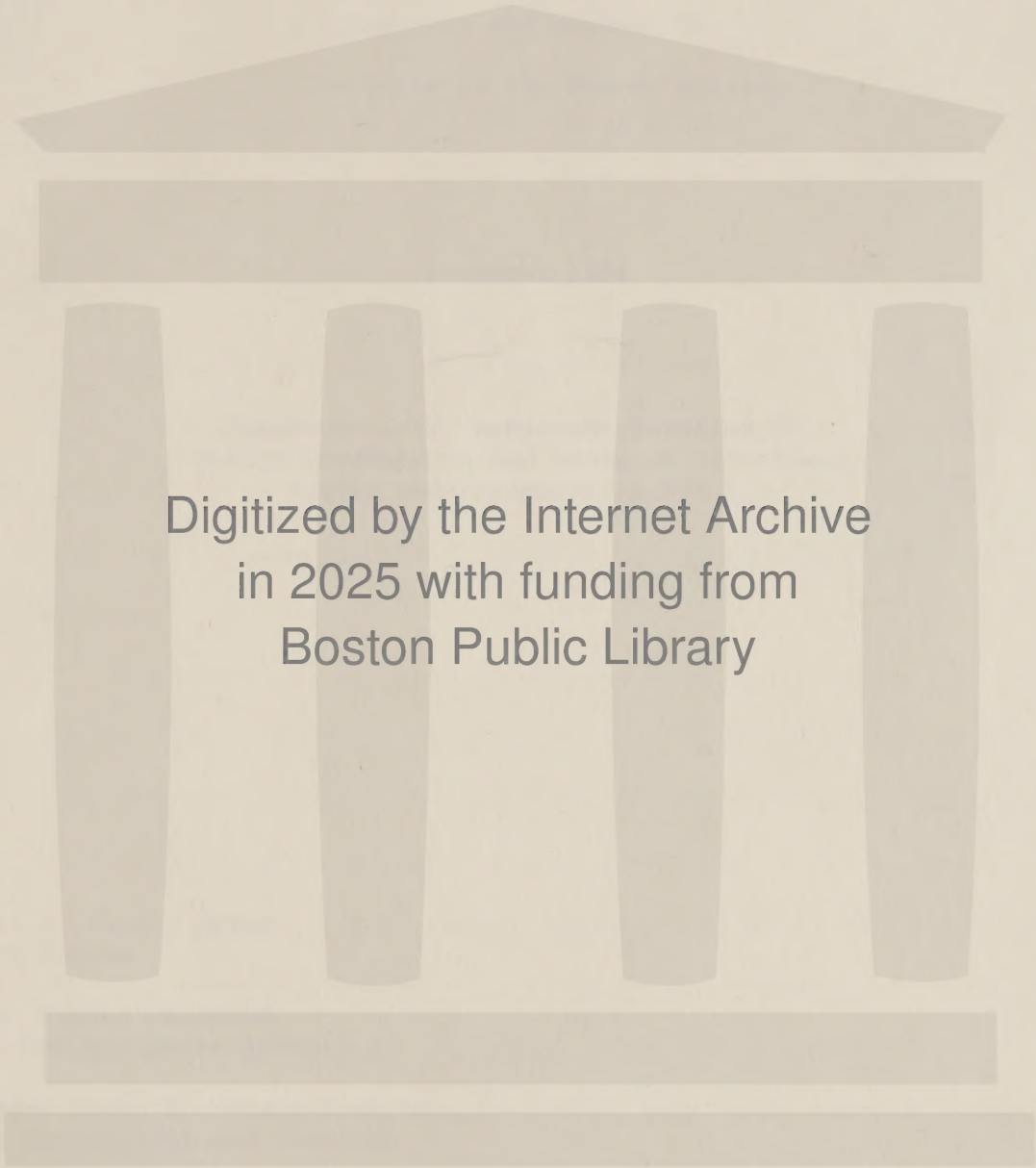
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Questions and Answers On

The State of the Boston Economy

November 1988

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Question

What is the state of the Boston economy?

Answer

Boston's booming economy continues to post record rates of job growth, accommodated by unprecedented levels of economic development. Boston's growth contributes to, and draws on a remarkable expansion of the state and regional economy.

Boston's gain of 17,000 jobs, in 1987, was exceeded only by that in 1984, and compares with an average annual increase of 14,500, in the four years 1983-87, and 11,000 per year, in the eleven years, 1976-87.

Similarly, development construction of $6.8 billion, in the five years 1984-88, at an annual average of $1.4 billion, outpaced the 1975-88 rate, with overall development, totalling $14.4 billion, averaged $1 billion a year.

Boston's thriving economy helped lead to record performance of income growth of the State. From 1982 to 1987, State per capita income rose from 11 percent above the

national average, in 1982, to 24 percent above, in 1987. With an annual growth rate of 8.5 percent, in per capita personal income, the State was second highest (in comparison with a 6.2 percent national average), in this period.

State and region have done even better more recently. From 2nd quarter 1987 to 2nd quarter 1988, New England led all of the Nation's regions with a 9.5 percent growth in total personal income, in comparison with 7.7 percent nationally. Among the states, Massachusetts ranked 6th, in growth rate in this period, exceeded only by Nevada, New Hampshire, Hawaii, Delaware, and New Jersey.

Question

What are the long-term prospects for the Boston economy, and what are the factors behind these prospects?

Answer

Boston's prospects are outstanding because city and region have an economic base with a relative concentration in those sectors, - services, high tech industry, and tourism -, expected to grow most rapidly nationally. Responding to these prospects, development construction underway, planned, and proposed, assures a high rate of development investment for the next ten years and beyond.

National prognoses for the Boston Metro Region, by the U.S. Bureau of Economic Analysis and the National Planning Association, foresee one of the highest levels of job growth among the metro areas of the nation. Boston is expected to gain upwards of 10,000 jobs a year to the turn of the century.

The flow of private development project proposals is complemented by record levels of planned public infrastructure expenditures which will raise the level of construction employment by 50 percent for at least six years in the 1990s.

Question

Are there any weak spots in the City's economy?

Answer

Not Really. But we are monitoring developments carefully, and I'll be happy to identify some of the things we are looking at, and finding.

1. Employment

All is not rosy. An upgrading of the quality of the economy and the number of jobs in Boston has been accompanied by a loss in manufacturing, insurance and banking activity, including jobs for which Boston Workers could more readily compete. Boston, in 1987, gained 10,000 jobs in services, including 6,000 in business services, 2,000 in health services, and 1,000 in hotels. And there was an increase of 5,000 in finance, including 4,000 in securities and 2,000 in real estate.

But insurance had peaked in 1982, with a loss of 3,000 jobs since. Banking lost 400 jobs last year. And Manufacturing continues to decline with the attrition of 2,000 jobs in 1987. These losses reflect mainly shifts to

the suburban ring. Boston's real estate is becoming too expensive for some types of economic activity.

2. Development

There is concern with the conversion of industrial space to office use, and the consequent loss of industrial jobs.

3. Housing

Though housing development continues at high levels, there is concern with the affordability gap. There is also concern that the shortage of affordable housing may limit labor force growth and employment expansion.

4. Back Office Space

Boston's back office space is dwindling, and what there is is not suitable for today's market which needs large floor plates in locations accessible to good transportation and labor force.

In the meantime, the suburban office market is expanding rapidly, and is now very competitive, and has gained 23 firms with 500 or more workers, since 1982, in

comparison with 10 for Boston.

We are now exploring the potential for back office development in Boston neighborhoods.

Question

What is the status of Boston's office market?

Answer

Boston continues to have perhaps the healthiest office market of any large city with a high rate of development, construction and absorbtion, at high rentals and low vacancy rates. Second quarter 1988 vacancy rates for Class A space are marginally higher than at year-end 1987. Net absorbtion of 500,000 square feet of Class A space, in the first six months, was less than average, and a record addition of 4 million square feet is coming on line this year. Consequently, the vacancy rate is expected to rise by year end but fall during the course of 1989 which will see less than 1 million square feet added. Vacancy rates should continue to dwindle in 1990 and 1991.

Question

What has been the impact of October 19, 1987?

Answer

The impact has been negligible. Employment in securities firms have experienced no net loss, through first quarter 1988, the date of our latest overall information.

The reason is that Boston's securities firms are different than those of New York, with a larger focus on asset management, and a lesser role in brokerage services.

Question

How do you read the State's fiscal situation?

Answer

The State's economy is blossoming, -witness the 2nd quarter 1988 information on personal income growth, and the latest low unemployment rates, and job growth information.

Like New York State and California, tax revenue has been adversely affected by the 1986 U.S. tax reform law, as well as the reduction in state taxes.

Question

What is the status of the Boston real estate market?

Answer

Record rates of employment growth, and upgrading of the quality of Boston firms and office occupations, an increase in foreign investment in Boston office structures, stable interest rates, the dampening of inflation, and the careful metering of office supply pipeline have given Boston a real estate market of extraordinary good health. Market values of real estate continue to appreciate, though at lesser rates.